

BILL # HB 2472

SPONSOR: Chabin

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TITLE: income tax credits; income threshold

STATUS: As Introduced

FISCAL ANALYSIS

Description

This bill provides that individual income tax credits would apply only against the amount of a taxpayer's tax liability that exceeds \$1,500.

Estimated Impact

Based on Department of Revenue (DOR) reports, the total dollar value of individual income tax credits was at least \$282 million in FY 2006 (the latest available data). It is estimated that under the provisions of this bill, the dollar value of individual income tax credits would be reduced by approximately 30%, or \$(85) million.

Analysis

The dollar estimate of individual income tax credits was derived from DOR's *The Revenue Impact of Arizona's Tax Expenditures – FY 2007/08*. Based on a simulation model maintained by DOR, it is estimated that approximately 80% of individual income tax returns report a tax liability of under \$1,500. These returns represent just under 30% of total individual income tax liability. If we assume that these 80% of lower income tax filers would no longer be eligible for individual income tax credits under this bill, the value of the credits would be reduced by approximately 30%, resulting in an \$85 million savings to the state's General Fund.

There are several caveats to these assumptions. The DOR report is a preliminary report, subject to revision as the department collects and analyzes more data. In addition, some of the credits included in this bill do not have a specific dollar amount associated with them in the DOR report, either because data is not available, or due to taxpayer confidentiality issues. As a result, the total indicated in the *Estimated Impact* section above is understated by an undetermined amount. Also, total individual income tax liability has decreased since tax year 2006 as a result of the 10% individual income tax rate reduction enacted in 2006, as well as deteriorating economic conditions over the last two years. As a result, the total value of credits in the short term would probably be reduced. And finally, the analysis assumes that tax credits are taken uniformly regardless of tax liability. To the extent that upper income taxpayers might claim a disproportionately larger amount of credits, the savings to the state would be smaller than indicated.

Local Government Impact

The Urban Revenue Sharing (URS) formula distributes 15% of individual and corporate income taxes collected 2 years prior to incorporated cities and towns. The provisions contained in this bill could increase the URS distributions beginning in FY 2012.